



January 31, 2014

*Via Electronic Mail*

Robert de V. Frierson, Secretary  
Board of Governors of the Federal  
Reserve System  
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Docket No. R-1466  
RIN 7100 AE-03

Robert E. Feldman, Executive Secretary  
Attention: Comments/Legal ESS  
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RIN 3064-AE04

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Docket ID OCC-2013-0016  
RIN 1557 AD 74

**Re: Notice of Proposed Rulemaking—Liquidity Coverage Ratio: Liquidity Risk  
Management, Standards, and Monitoring**

Ladies and Gentleman:

I am writing on behalf of Regions Financial Corporation (“Regions”) to provide comments to the proposed rules (the “Proposal”)<sup>1</sup> issued by the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the

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<sup>1</sup> *Liquidity Coverage Ratio: Liquidity Risk Management, Standards, and Monitoring*, 78 Fed. Reg. 71,818 (Nov. 29, 2013).

Currency (collectively, the “Agencies”) to establish quantitative liquidity standards based on the liquidity coverage ratio (“LCR”) framework (the “Basel LCR Framework”)<sup>2</sup> established by the Basel Committee on Bank Supervision (“BCBS”). We appreciate the opportunity to comment on this Proposal. Regions has participated in numerous conference calls leading to the letters submitted by the Joint Trades Group and the Regional Bank Group, and are in agreement with the views raised in their letters. However, we also felt it was important to emphasize and clarify issues as they are important to Regions through this letter.

First and foremost, Regions fully supports the fundamental objectives of the Proposal and the Basel LCR Framework. The recent banking crisis validated the need for increased liquidity, and measures of that liquidity, to demonstrate that a bank is capable of meeting its needs in a stressed environment. We also recognize the benefit of having a standard liquidity tool that can measure all banking entities with the same criteria. At the same time, we would ask that the Agencies consider amending certain aspects of the Proposal as written and believe that several important changes to the Proposal are necessary. The following bullets highlight the recommendations we respectfully ask the Agencies to consider in their review before issuing the final rule. A more detailed discussion of our recommendations follows these bullets.

- (A) Require banks under the Modified LCR to submit monthly reporting rather than daily. Modified LCR banks have less complex and less volatile liquidity profiles compared to the larger Full LCR banks, creating less risk and making it unnecessary to report at the same frequency. Additionally, the programming and system upgrades required to satisfy the granular level of reporting suggested in the current NPR would not be attainable in the shortened compliance timeframe.
- (B) Exclude state and municipal deposits, trust deposits, and repo sweep balances from the “unwind” requirement in the calculation of high quality liquid assets (“HQLA”). These types of deposits are secured to meet customer needs and not to artificially inflate the bank’s HQLA calculation. We request that secured customer relationship deposits be spared from this adverse treatment and that the unwind feature be focused on wholesale non-customer funding products.
- (C) Reevaluate the classification under HQLA of securities issued by U.S. government sponsored entities (“GSEs”) to recognize their liquidity and their strength during the most recent recession. The 40% cap on Level 2 assets is particularly onerous and not reflective of market and customer appetite for these high quality assets. As an alternative approach, Regions supports the additional haircuts for holdings over the 40% cap suggested by the Regional Bank Group as a reasonable compromise to the Proposal.
- (D) Revise the proposed definition and requirements for classifying “operational deposits”.

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<sup>2</sup> Basel Committee on Banking Supervision, *Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools* (revised January 2013), available at <http://www.bis.org/publ/bcbs238.pdf>.



#### A. Monthly vs. Daily Calculation Requirement

The proposal would require banks using the Modified LCR to calculate their ratio on a daily basis. While we certainly understand the Agencies interest in daily data from the largest advanced approach banks, we feel this is unnecessary for non-advanced approach regional banks such as Regions. Regional banks are, by nature, less complex and less volatile than the larger internationally active organizations. Regions has made significant enhancements to our internal liquidity monitoring, forecasting, and stress testing scenarios in recent years and has observed that liquidity levels are largely predictable and manageable without reliance on volatile unsecured wholesale funding markets.

Monthly reporting would also be consistent with the reporting framework under proposed FR 2052 in which only banks required to submit 2052a reporting must file daily vs. regional banks such as ourselves who will be expected to file a monthly report using the 2052b template. The monthly calculation frequency for regional banking organizations would also be consistent with the Federal Reserve's proposed rules to implement the enhanced liquidity standards required under section 165(b)(1)(A)(ii) of the Dodd-Frank Act, which would require covered companies to conduct internal liquidity stress tests monthly.

The programming and system upgrades required to satisfy the granular level of reporting suggested in the current NPR would not be attainable in the shortened compliance timeframe. While we recognize that the largest banks may have these systems and resources in place due to their current daily reporting requirements, the regional banks that have not previously been required to report daily would be severely disadvantaged in reaching compliance. Should the Agencies decide that daily reporting be required, we would join the Regional Bank Group in requesting that implementation be delayed until 2017 at the earliest to allow for the necessary programming and systems upgrades that would be required to meet this level of reporting.

Regions firmly believes and would like to respectfully stress to the Agencies that the level of complexity of regional banks does not warrant daily reporting and that the burden far outweighs the benefit.

#### Use of HQLA in a Stressed Environment

The NPR differs from Basel III on the issue of a bank being permitted to fall below the 100% requirement in a stressed environment. Basel III "requires that, absent a situation of financial stress, the value of the ratio be no lower than 100%... on an ongoing basis because the stock of unencumbered HQLA is intended to serve as a defense against the potential onset of liquidity stress, however banks may use their stock of HQLA, thereby falling below 100%, as maintaining the LCR at 100% under such circumstances could produce undue negative effects on the bank and other market participants"<sup>3</sup>. In contrast, the NPR requires that banks

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<sup>3</sup> Basel Committee on Banking Supervision, *Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools* (revised January 2013), available at <http://www.bis.org/publ/bcbs238.pdf>. Page 4 – Part 1, Section 1.17

with ratios below 100% for 3 consecutive days report non-compliance and provide a plan to remediate the shortfall. This proposal appears to contradict the premise of creating a stockpile of high quality liquid assets with the intent of utilizing them to defend periods of liquidity stress.

Regions supports the Basel III recommendation to allow for periods of compliance at less than 100% to support temporary market and liquidity stress environments.

#### 21-Day vs. 30-Day Stress Period for Modified LCR Banks

While we appreciate the Agencies effort to require modified banks to have High Quality Liquid Assets (HQLA) to cover a 21-day stress period compared to the 30-day stress period requirement for the Full LCR banks, the 21 day period creates challenges and inconsistencies with other regulatory reporting. Additionally, the 21day period would require daily reporting to be effective and as previously discussed, regional banks lack the complexity to warrant daily reporting.

The majority of regional banks' reporting requirements and our customers cashflow patterns supports a monthly reporting cycle. There is also the risk of potential misinterpretation of a banks' compliance with the rules by internal and external governance parties created by inconsistent reporting standards for FR 2052b, DFA 165, and the LCR.

Regions supports the 70% threshold for outflow assumptions that the Agencies have recommended for Modified LCR banks in the proposal for the denominator, combined with a 30 day reporting requirement. We believe this approach would provide the best view of a bank's monthly liquidity profile and remain consistent with other reporting, both internal and external.

#### B Public Sector and Other Collateralized Customer Deposits Should Not Be Treated Like Wholesale Repurchase Agreements

The treatment under the Proposal of deposits placed by states and municipalities, as well as other collateralized deposits such as corporate trust deposits and customer repo sweep balances, is significantly more punitive than under the Basel III LCR Framework. The Proposal requires that the 40% Level 2 cap be calculated both before and after the unwind of secured deposits or transaction involving High Quality Liquid Assets (HQLA), with the highest excess cap amount deducted from the HQLA total. Regions, like other regional banks have large customer relationship balances in these types of deposits, the majority of which are collateralized using FHLMC and FNMA securities, currently classified as Level 2 assets. Using the calculation as defined in the Proposal, the unwind of this sizeable amount of deposits creates a negative amount of Level 1 assets, which results in all Level 2 assets to be classified as excess and therefore unusable to support outflow assumptions in the ratio. This creates a situation where a bank can have a negative HQLA, as demonstrated in the example in the Appendix to this letter, and we believe this is to be an unintended consequence created by the NPR as currently written.

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If the Proposal was finalized as written, Banks including Regions would need to evaluate the feasibility of continuing to take these types of deposits, or consider drastically reducing our customer base of states, municipalities, and corporate customers who require that their deposits be secured. As previously mentioned we believe it was not the Agencies intent to negatively impact these customers and ask that this requirement be reviewed and excluded from the final rule.

### C. Treatment of GSE Securities as High Quality Liquid Assets

In the Proposal, the Agencies acknowledge that securities issued by certain GSEs have been highly liquid, even in times of stress. However, the argument given against GSE securities being included as Level 1 assets is that they are implicitly but not explicitly guaranteed by the U.S. Government. This classification alone appears to be the major factor that relegates them to the category of Level 2 Asset. As a result, FHLMC and FNMA securities are given credit for only 85% of their value and are subject to a 40% cap. The treatment of the securities with both a haircut to their value and a cap is overly punitive and inconsistent with the depth and liquidity of their markets and their performance during the recent recession. Additionally, the investment policies of most of our secured deposit customers accept GSE securities as collateral and view these securities comparably to U.S. Government and Agency securities that do carry the explicit guarantee.

Regions supports the recommendation of the Regional Bank Group in their comment letter, modifying the structure of the 40% cap on Level 2 securities. Under this alternative approach, the treatment of GSE obligations up to the 40% cap would remain unchanged from the Proposal. However, GSE obligations in excess of the 40% cap would be eligible as Level 2A liquid assets, subject to a haircut amount that would increase as the proportion of GSE obligations to total HQLA increases.

The following table illustrates how the modified cap the Regional Bank Group has provided for in their comment letter would apply:

Haircut Percentage based on GSE % of HQLA - Example		
GSE % of HQLA	Additional Haircut	Total Haircut
Greater than 40% - less than 50%	5%	20%
50% - less than 60%	25%	40%
60% - less than 70%	45%	60%
70% - less than 80%	65%	80%
80% - 100%	85%	100%

*\* As suggested by the Regional Bank Group in their letter submitted to the Agencies.*

Importantly, this graduated cap approach would not allow a banking organization to rely exclusively on GSE obligations to satisfy its requirement to maintain a sufficient amount of HQLA to meet its projected outflows. The graduated cap we recommend the Agencies implement would allow GSE obligations to comprise no more than 80% of a banking organization's total stock of HQLA. We believe such a graduated cap on GSE obligations would more appropriately reflect the proven liquidity value of GSE obligations without allowing banking organizations to over-rely on this class of liquid assets.

#### D. Definition of Operational Deposits

Regions' believes that the LCR is intended to be a tool to measure and compare the liquidity positions of the reporting banks. As such, a clear definition of operational deposits and uniform reporting requirements is essential to being assured that the extracted information provided is compiled in a comparable manner.

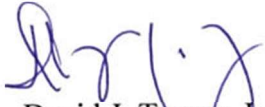
In order to accomplish this, the definition will need to be achievable for all banks. While some banks have the systemic capabilities to analyze each corporate customer's account to determine what is operational, many banks do not currently have that level of granularity available from their systems.

Of the current requirements under the proposal, the following areas warrant significant review:

- a. The majority of operational deposits are held in demand deposit accounts that do not require any notice for withdrawal. The nature and intended purpose of an operational deposit product does not support the concept of a 30 day notice period requirement.
- b. Another requirement is for the account to have a low level of volatility. To the contrary, operational accounts experience volatility in their balances as cash flows in and payments are processed over the course of the month. Operational deposits are volatile through the natural function of the deposit type with predictable monthly and seasonal deposit flows. Operational deposits can be defined at a portfolio level. The evaluation at the portfolio level allows for the monitoring of "surge" balances or large decreases which could impact the liquidity profile. The accounts with very little volatility or activity are more likely to be the non-operational accounts.
- c. The Proposal requires that banks calculate the excess deposits in each account that are not operational and separate them into a higher run-off assumption rate category. Customers manage the balances in their operational accounts based on anticipated activity levels, fee assessments and historical volatility. Regions regularly evaluates customer deposit product activity on a portfolio level and believes a set of criteria that can be viewed at this level would be more effective.

We thank the Agencies for the opportunity to comment on the Proposal and respectfully ask for consideration of the recommendations and suggestions in this letter. I am available should you have any questions or would like to discuss in further detail.

Sincerely,

A handwritten signature in blue ink, appearing to read "D. J. Turner, Jr.", with a stylized flourish at the end.

David J. Turner, Jr.  
Senior Executive Vice President and  
Chief Financial Officer



### Appendix: Impact of the Adjusted HQLA Cap on Preferred Deposits

As discussed in Section C, the proposed requirement to unwind preferred deposits and other collateralized deposits for purposes of calculating the adjusted HQLA cap can have significant negative consequences. Below, an example calculation from the Regional Bank Group illustrates these consequences with a hypothetical example where an institution with \$10 billion in non-maturity preferred deposits secured by \$11 billion of Level 2A assets (e.g., GSE obligations).

Effect of Proposed Treatment of Preferred Deposits on Liquidity		
Assumptions	Calculation	Result (\$B)
Unencumbered Level 1 Assets (a)	–	8
Unencumbered Level 2 Assets (b)	–	10
Unencumbered Level 2B Assets (c)	–	0
Level 1 Liquid Asset Amount (d)	a	8
Level 2 Liquid Asset Amount (e)	$b * .85$	8.5
Level 2b Liquid Asset Amount (f)	$c * .5$	0
Secured Funding Position is Unwound		
Adjusted Level 1 Liquid Asset Amount (g)	$d - 10$	–2
Adjusted Level 2 Liquid Asset Amount (h)	$e + (\$11B * .85)$	17.85
Adjusted Level 2b Liquid Asset Amount (i)	f	0
Unadjusted Excess HQLA Calculation		
Level 2 Cap Excess Amount (j)	$\text{MAX}(e + f - .6667 * d, 0)$	3.1664
Level 2b Cap Excess Amount (k)	$\text{MAX}(f - j - .1765 * (d + e), 0)$	0
Unadjusted Excess HQLA Amount (l)	$j + k$	3.1664
Adjusted Excess HQLA Calculation		
Adjusted Level 2 Cap Excess Amount (m)	$\text{MAX}(h + i - .6667 * g, 0)$	19.1834
Adjusted Level 2b Cap Excess Amount (n)	$\text{MAX}(i - m - .1765 * (g + h), 0)$	0
Adjusted Excess HQLA Amount (o)	$m + n$	19.1834
Calculation of HQLA Amount	$d + e + f - \text{MAX}(l, o)$	–2.6843

\* As detailed by the Regional Bank Group in their letter submitted to the Agencies.